

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

**Single Audit**

**For the Fiscal Year Ended June 30, 2008**







Mary Taylor, CPA  
Auditor of State

Board of Education  
Fairfield Union Local School District  
7698 W. Main Street  
P.O. Box 67  
West Rushville, Ohio 43163

We have reviewed the *Independent Auditor's Report* of the Fairfield Union Local School District, Fairfield County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Fairfield Union Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 7, 2009

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**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Fairfield Union School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Kennedy Cottrell Richards  
December 19, 2008

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

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The discussion and analysis of the Fairfield Union Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

- ▶ The assets of Fairfield Union Local School District exceeded its liabilities at June 30, 2008 by \$31,302,671. Of this amount, \$28,413,306 represents capital assets, net of related debt and net asset amounts restricted for specific purposes. The remaining \$2,889,365 represents unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$19,351,938, which represents a 161.93 percent increase from 2007.
- ▶ General revenues accounted for \$35,582,536 or 91.64 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,247,128 or 8.36 percent of total revenues of \$38,829,664.
- ▶ The District had \$19,477,726 in expenses related to governmental activities; only \$3,247,128 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$35,582,536 were used to provide for the remainder of these programs.
- ▶ The District recognizes four major governmental funds: the General, Bond Retirement, Building, and Classroom Facilities Funds. In terms of dollars received and spent, the General Fund and Classroom Facilities Fund are significantly larger than all the other funds of the District combined. The General Fund had \$18,114,295 in revenues and \$15,754,848 in expenditures, while the Classroom Facilities Fund has \$17,259,650 in revenue and \$7,561,563 in expenditures in fiscal year 2008.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Fairfield Union Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2008*

*(Unaudited)*

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**Reporting the District as a Whole**

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

The analysis of the District's major funds begins on page 15. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General, Bond Retirement, Building, and Classroom Facilities Funds.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

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A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Proprietary Funds**

The District's two proprietary funds are internal service funds. Since the internal service funds operate on a break-even, cost-reimbursement basis, the District reports them as proprietary funds using the full accrual basis of accounting. Since the internal service funds exclusively benefits governmental functions, they have been included with governmental activities in the government-wide financial statements.

**Fiduciary Funds**

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

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**Government-Wide Financial Analysis**

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2008 compared to fiscal year 2007:

Table 1  
**Net Assets**

	<u>Governmental Activities</u>	
	2008	2007
<u>Assets:</u>		
Current and Other Assets	\$54,806,841	\$39,568,125
Capital Assets, Net	15,378,858	6,932,405
<i>Total Assets</i>	<u>70,185,699</u>	<u>46,500,530</u>
<u>Liabilities:</u>		
Long-Term Liabilities	29,290,665	29,380,383
Other Liabilities	9,592,363	6,379,439
<i>Total Liabilities</i>	<u>38,883,028</u>	<u>35,759,822</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	6,732,376	4,439,940
Restricted	21,680,930	5,639,939
Unrestricted	2,889,365	660,829
<i>Total Net Assets</i>	<u>\$31,302,671</u>	<u>\$10,740,708</u>

Current and other assets increased \$15,238,716 from fiscal year 2007 due to an increase in cash and cash equivalents held by the District for the classroom facilities building project. Capital assets increased by \$8,446,453 or 121.84 percent.

Current (other) liabilities increased by \$3,212,924 or 50.36 percent due to an increase in contracts payable for the classroom facilities building project.

Long-term liabilities decreased by \$89,718 due to debt payments made.

The District's largest portion of net assets is restricted net assets. This accounts for 69.26 percent of net assets. The restricted net assets are subject to external restrictions on how they may be used.

The District's smallest portion of net assets is unrestricted. This accounts for 9.23 percent of net assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

The remaining balance of \$6,732,376 or 21.51 percent is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

Table 2 shows the changes in net assets for fiscal year 2008 and provides a comparison to fiscal year 2007.

Table 2  
**Changes in Net Assets**

	Governmental Activities	
	2008	2007
<b><u>Revenues:</u></b>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$2,137,174	\$2,062,615
Operating Grants and Contributions	1,109,954	969,597
<i>General Revenue:</i>		
Property Taxes	4,389,486	3,944,357
Income Taxes	3,553,396	2,550,463
Unrestricted Grants and Entitlements	24,989,273	12,912,931
Investment Earnings	2,412,235	1,905,854
Gain on Sale of Capital Assets	1,147	0
Miscellaneous	236,999	79,791
<i>Total Revenues</i>	<u>38,829,664</u>	<u>24,425,608</u>
<b><u>Expenses:</u></b>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	7,950,722	7,704,734
Special	1,795,400	1,764,269
Vocational	335,668	310,848
Other	363,197	318,296

(Continued)

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

Table 2  
**Changes in Net Assets**  
(Continued)

	<u>2008</u>	<u>2007</u>
<i>Support Services:</i>		
Pupils	853,930	777,115
Instructional Staff	706,612	713,720
Board of Education	34,403	44,797
Administration	1,446,708	1,466,350
Fiscal	469,663	445,595
Operation and Maintenance of Plant	1,177,341	1,163,811
Pupil Transportation	1,433,037	1,222,348
Central	145,896	150,196
<i>Operation of Non-Instructional Services:</i>		
Food Service	734,556	632,122
Other	13,061	1,000
Extracurricular Activities	651,377	635,666
Interest and Fiscal Charges	<u>1,366,155</u>	<u>878,030</u>
<i>Total Expenses</i>	<u>19,477,726</u>	<u>18,228,897</u>
<i>Change in Net Assets</i>	19,351,938	6,196,711
Net Assets – Beginning of Year, Restated	<u>11,950,733</u>	<u>4,543,997</u>
Net Assets – End of Year	<u>\$31,302,671</u>	<u>\$10,740,708</u>

The most significant program expenses for the District are Regular Instruction, Special Instruction, Administration, Pupil Transportation, Interest and Fiscal Charges, and Operation and Maintenance of Plant. These programs account for 77.88 percent of the total governmental activities. Regular Instruction, which accounts for 40.82 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 9.22 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 7.43 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 7.36 percent of the total, represents costs associated with providing transportation services for students between home and school and to school activities Interest and Fiscal Charges, which accounts for 7.01 percent of the total, represents costs associated with interest and fees related to long term debt. Operation and Maintenance of Plant, which represents 6.04 percent of the total, represent costs associated with operating and maintaining the District's facilities.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs account for 75.66 percent of total revenues.

**Governmental Activities**

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and Grants and Entitlements Not Restricted to Specific Programs and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 11.3 percent and Grants and Entitlements Not Restricted to Specific Programs made up 64.36 percent of the total revenue for the governmental activities in fiscal year 2008.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District voters approved a bond retirement tax levy for 3.0 mills. It was passed in November 1996 as part of a \$1,455,000 bond issue for facility improvements. This levy generates approximately \$160,000 dollars in revenue for debt service payments.

The District voters approved another bond retirement tax levy for 3.0 mills November 2004 as part of a \$7.9 million bond issue for the renovation of the Junior-Senior High School Building and to begin the design process of three new buildings.

The District voters approved an additional income tax of 1% for 30 years in May 2007 for the completion of the renovation of the Junior-Senior High School Building and for the construction of three new buildings.

In December of 2006, the District issued \$8.2 million in general obligation bonds for funding a portion of the basic project cost of the classroom facilities project. In January of 2007, the District issued an additional \$10.0 million in general obligation bonds to repay a \$7.3 million bond anticipation note and to provide additional funds for the District's portion of the classroom facilities project.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2008, the District received \$8,560,266 through the State's foundation program, which represents 22.05 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 53.63 percent of governmental activities program expenses. Support services expenses make up 32.18 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2008 compared with fiscal year 2007. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3  
**Net Cost of Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
<i>Program Expenses:</i>				
Instruction	\$10,444,987	\$8,832,267	\$10,098,147	\$8,614,520
Support Services	6,267,590	5,650,768	5,983,932	5,398,226
Operation of Non-Instructional Services	747,617	(1,468)	633,122	(66,936)
Extracurricular Activities	651,377	382,876	635,666	372,847
Interest and Fiscal Charges	1,366,155	1,366,155	878,030	878,030
Total Expenses	<u>\$19,477,726</u>	<u>\$16,230,598</u>	<u>\$18,228,897</u>	<u>\$15,196,687</u>

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$40,037,662 and expenditures and other financing uses of \$29,108,808.

Total governmental funds fund balance increased by \$10,928,854. The increase in fund balance for the year was most significant in the Classroom Facilities Fund, which increased by \$9,698,087 during fiscal year 2008.

The District should remain stable in fiscal years 2009 through 2010. However, projections beyond fiscal year 2010 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

**Budget Highlights - General Fund**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a cash basis for receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2008, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

For the General Fund, the final budget basis revenue was \$18,148,982 representing a \$1,919,482 increase from the original budget estimates \$16,229,500. The final budget reflected a 11.82 percent increase from the original budgeted amount. Most of this difference was due to conservative estimates of income taxes and intergovernmental revenue. For the General Fund, the final budget basis expenditures were \$16,110,730 representing an increase of \$3,286 from the original budget expenditures of \$16,107,444. The final budget reflected only a 0.02 percent increase from the original budgeted amount.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2008, the District had \$21.4 million invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, vehicles, and library books and textbooks, of which all was in governmental activities. That total carries an accumulated depreciation of \$6.0 million. Table 4 shows fiscal year 2008 balances compared to fiscal year 2007.

Table 4  
**Capital Assets & Accumulated Depreciation at Year End**

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$356,747	\$356,747
Construction in Progress	9,966,908	1,578,252
<i>Depreciable Capital Assets:</i>		
Land Improvements	805,042	805,042
Buildings and Improvements	5,188,493	5,188,493
Furniture, Fixtures and Equipment	3,006,526	2,983,233
Vehicles	1,378,280	1,309,534
Library Books and Textbooks	691,603	691,603
<i>Total Capital Assets</i>	<u>21,393,599</u>	<u>12,912,904</u>
<i>Less Accumulated Depreciation:</i>		
Land Improvements	147,720	107,476
Buildings and Improvements	2,440,862	2,398,817
Furniture, Fixtures and Equipment	2,156,470	2,047,403
Vehicles	803,236	991,061
Library Books and Textbooks	466,453	435,742
<i>Total Accumulated Depreciation</i>	<u>6,014,741</u>	<u>5,980,499</u>
Capital Assets, Net	<u>\$15,378,858</u>	<u>\$6,932,405</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

**Debt Administration**

At June 30, 2008, the District had \$27,409,548 in general obligation debt outstanding with \$370,000 due within one year. Table 5 summarizes the bonds and note outstanding for fiscal year 2008 compared to fiscal year 2007.

Table 5  
**Outstanding Debt, Governmental Activities at Year End**

Purpose	2008	2007
Energy Conservation Note	\$290,000	\$320,000
Bonds – Buses	0	20,000
Bonds – Buildings and Improvements	7,939,550	7,969,550
Refunding Bonds	755,000	800,000
Series 2006A Buses	255,000	280,000
Series 2006 A Bonds	8,210,000	8,215,000
Series 2007 Bonds	9,959,998	9,959,998
Total	\$27,409,548	\$27,564,548

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

**Current Issues**

Although considered a lower mid-wealth district, Fairfield Union Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Over half of the District's funding is received through the State's foundation program, which along with other various grants and entitlements makes up just over 66 percent of the District's revenue. The District relies on state and federal funding to operate at the current level of services. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. The careful financial planning and the passage of additional local taxes when needed have permitted the District to provide a quality education for students, along with maintenance of existing facilities.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2004 and the new court may be called upon to address the issue. On August 14, 2004 the Ohio Coalition for Adequacy and Equity filed petition for a Writ of Certiorari with the United States Supreme Court. On October 20, 2004 the United States Supreme Court declined to review the State's continued operation of a school funding plan declared unconstitutional by the Ohio Supreme Court on four separate occasions. At this time there can be no reasonable estimate of these discussions or their impact on school funding.

As of the date of these financial statements, the District is unable to determine what effect, if any, these decisions will have on its future State funding and on its financial statements.

The Ohio General Assembly has also made several significant changes impacting local taxes:

In 2003 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). Seventy (70) percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2002 through 2007; after this a phase out formula would begin.

The Fairfield Union Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes approximately 94 percent of the District's real estate valuation.

Commercial growth saw a decrease in assessed valuation in calendar 2007. This was mainly due to the phase out of the tangible personal property tax.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008  
(Unaudited)*

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On November 2, 2004, voters of the Fairfield Union Local School District approved a \$7.9 million bond issue. This issue represents the first phase of a two phased Facilities Master Plan for the District. The entire plan, if fully implemented, will result in two new elementary schools – one at Bremen and one at Pleasantville, and a new High School to be located immediately east of the current Junior-Senior High School Building.

Phase I of the project will retire short-term lease purchase agreements, provide some renovation to the current Junior-Senior High School Building, and begin the design process for the new buildings.

Phase II of the project was approved by the voters in May 2006 by passage of a 1.0 percent income tax. Phase II authorized additional bond issues of about \$18,000,000. The scope of Phase II includes the renovations to the Junior-Senior High Building, and the completion of the design, bidding and construction of three new buildings.

With passage of the May 2006 issue the District has received a grant of about \$38,000,000, which will fund about two-thirds of the entire Facilities Master Plan.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Kevin D. Miller, Treasurer of Fairfield Union Local School Board of Education, 7698 East Main Street, P.O. Box 63067, West Rushville, OH 43163.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*June 30, 2008*

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	<u>Governmental Activities</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$46,062,149
Cash and Cash Equivalents with Fiscal Agents	1,401,652
Property Taxes Receivable	4,472,101
Income Taxes Receivable	905,150
Accounts Receivable	2,590
Intergovernmental Receivable	38,897
Accrued Interest Receivable	1,390,466
Inventory Held for Resale	6,927
Materials and Supplies Inventory	81,530
Deferred Bond Issuance Cost	445,379
Nondepreciable Capital Assets	10,323,655
Depreciable Capital Assets, Net	<u>5,055,203</u>
<i>Total Assets</i>	<u>70,185,699</u>
<b><u>Liabilities:</u></b>	
Accounts Payable	90,484
Accrued Wages and Benefits	1,437,618
Contracts Payable	3,570,664
Intergovernmental Payable	492,039
Accrued Interest Payable	97,503
Matured Compensated Absences Payable	30,586
Claims Payable	265,346
Unearned Revenue	3,608,123
<i>Long-Term Liabilities:</i>	
Due within One Year	505,046
Due in More Than One Year	<u>28,785,619</u>
<i>Total Liabilities</i>	<u>38,883,028</u>
<b><u>Net Assets:</u></b>	
Invested in Capital Assets, Net of Related Debt	6,732,376
<i>Restricted for:</i>	
Capital Projects	20,253,752
Debt Service	1,043,253
Other Purposes	383,925
Unrestricted	<u>2,889,365</u>
<i>Total Net Assets</i>	<u><u>\$31,302,671</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Activities  
For the Fiscal Year Ended June 30, 2008*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b><u>Governmental Activities:</u></b>				
<i>Instruction:</i>				
Regular	\$7,950,722	\$715,892	\$123,141	(\$7,111,689)
Special	1,795,400	107,858	568,904	(1,118,638)
Vocational	335,668	30,986	0	(304,682)
Other	363,197	30,220	35,719	(297,258)
<i>Support Services:</i>				
Pupils	853,930	79,297	4,622	(770,011)
Instructional Staff	706,612	57,956	19,802	(628,854)
Board of Education	34,403	3,237	0	(31,166)
Administration	1,446,708	136,580	17,231	(1,292,897)
Fiscal	469,663	44,284	0	(425,379)
Operation and Maintenance of Plant	1,177,341	107,476	0	(1,069,865)
Pupil Transportation	1,433,037	116,657	0	(1,316,380)
Central	145,896	12,180	17,500	(116,216)
<i>Operation of Non-Instructional Services:</i>				
Food Services	734,556	426,050	307,973	(533)
Other	13,061	0	15,062	2,001
Extracurricular Activities	651,377	268,501	0	(382,876)
Interest and Fiscal Charges	1,366,155	0	0	(1,366,155)
<b>Total Governmental Activities</b>	<b>\$19,477,726</b>	<b>\$2,137,174</b>	<b>\$1,109,954</b>	<b>(16,230,598)</b>

**General Revenues:**

*Property Taxes Levied for:*

General Purposes	3,688,632
Debt Service	484,840
Capital Outlay	216,014

*Income Taxes Levied for:*

General Purposes	3,553,396
Grants and Entitlements not Restricted to Specific Programs	9,379,868
School Facilities Commission Grant	15,609,405
Investment Earnings	2,412,235
Gain on Sale of Capital Assets	1,147
Miscellaneous	236,999

*Total General Revenues* 35,582,536

Change in Net Assets 19,351,938

*Net Assets at Beginning of Year, Restated* 11,950,733

*Net Assets at End of Year* \$31,302,671

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Balance Sheet  
Governmental Funds  
June 30, 2008*

	General	Bond Retirement	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b><u>Assets:</u></b>						
Equity in Pooled Cash and Cash Equivalents	\$2,382,595	\$964,858	\$9,975,338	\$30,633,527	\$1,951,123	\$45,907,441
Property Taxes Receivable	3,775,206	481,293	0	0	215,602	4,472,101
Income Taxes Receivable	905,150	0	0	0	0	905,150
Accounts Receivable	2,590	0	0	0	0	2,590
Intergovernmental Receivable	0	0	0	0	38,897	38,897
Accrued Interest Receivable	7,703	0	107,528	1,243,304	31,931	1,390,466
Inventory Held for Resale	0	0	0	0	6,927	6,927
Materials and Supplies Inventory	71,809	0	0	0	9,721	81,530
<i>Total Assets</i>	<u>\$7,145,053</u>	<u>\$1,446,151</u>	<u>\$10,082,866</u>	<u>\$31,876,831</u>	<u>\$2,254,201</u>	<u>\$52,805,102</u>
<b><u>Liabilities and Fund Balances:</u></b>						
<b><u>Liabilities:</u></b>						
Accounts Payable	\$84,855	\$0	\$0	\$0	\$3,958	\$88,813
Accrued Wages and Benefits	1,347,271	0	0	0	90,347	1,437,618
Contracts Payable	0	0	254,057	3,316,607	0	3,570,664
Intergovernmental Payable	465,666	0	0	0	26,373	492,039
Matured Compensated Absences Payable	24,573	0	0	0	6,013	30,586
Deferred Revenue	3,353,795	424,429	0	0	192,656	3,970,880
<i>Total Liabilities</i>	<u>5,276,160</u>	<u>424,429</u>	<u>254,057</u>	<u>3,316,607</u>	<u>319,347</u>	<u>9,590,600</u>
<b><u>Fund Balances:</u></b>						
Reserved for Encumbrances	134,965	0	3,446,815	30,422,796	45,809	34,050,385
Reserved for Property Taxes	421,411	56,864	0	0	22,946	501,221
<i>Unreserved, Undesignated, Reported in:</i>						
General Fund	1,312,517	0	0	0	0	1,312,517
Special Revenue Funds	0	0	0	0	961,044	961,044
Debt Service Fund	0	964,858	0	0	0	964,858
Capital Projects Funds	0	0	6,381,994	(1,862,572)	905,055	5,424,477
<i>Total Fund Balances</i>	<u>1,868,893</u>	<u>1,021,722</u>	<u>9,828,809</u>	<u>28,560,224</u>	<u>1,934,854</u>	<u>43,214,502</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,145,053</u>	<u>\$1,446,151</u>	<u>\$10,082,866</u>	<u>\$31,876,831</u>	<u>\$2,254,201</u>	<u>\$52,805,102</u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2008*

**Total Governmental Funds Balances** \$43,214,502

*Amounts reported for governmental activities in the statement of net assets  
 are different because:*

Capital assets used in governmental activities are not financial resources and therefore  
 are not reported in the funds. 15,378,858

Some of the District's receivables will be collected after fiscal year-end, but are  
 not available soon enough to pay for the current period's expenditures and  
 therefore are deferred in the funds. These receivables consist of:  
     Delinquent property taxes 362,757

Unamortized issuance costs represent deferred charges which do not provide current  
 financial resources and are therefore not reported in the funds. 445,379

Some liabilities are not due and payable in the current period and therefore  
 are not reported in the funds. These liabilities consist of:

Energy conservation notes	(290,000)	
Premium on bonds issued	(365,637)	
General obligation bonds	(27,119,548)	
Accrued interest on notes and bonds	(97,503)	
Capital leases	(315,475)	
Compensated absences	<u>(1,200,005)</u>	
Total liabilities that are not reported in the funds		(29,388,168)

Internal service funds are used by management to charge the costs of insurance  
 activities to individual funds. The assets and liabilities of the internal service funds  
 are included in governmental activities in the statement of net assets. 1,289,343

*Net Assets of Governmental Activities* \$31,302,671

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2008*

	General	Bond Retirement	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b><u>Revenues:</u></b>						
Property Taxes	\$3,638,345	\$481,481	\$0	\$0	\$216,566	\$4,336,392
Income Taxes	3,553,396	0	0	0	0	3,553,396
Intergovernmental	9,244,935	64,133	0	15,609,405	1,181,014	26,099,487
Interest	135,222	0	532,912	1,646,050	91,624	2,405,808
Tuition and Fees	1,482,383	0	0	0	0	1,482,383
Extracurricular Activities	0	0	0	0	228,741	228,741
Rentals	22,865	0	0	0	0	22,865
Gifts and Donations	0	0	0	0	6,581	6,581
Charges for Services	0	0	0	0	426,050	426,050
Miscellaneous	37,149	0	137,425	4,195	35,365	214,134
<b>Total Revenues</b>	<b>18,114,295</b>	<b>545,614</b>	<b>670,337</b>	<b>17,259,650</b>	<b>2,185,941</b>	<b>38,775,837</b>
<b><u>Expenditures:</u></b>						
<i>Current:</i>						
<i>Instruction:</i>						
Regular	7,533,708	0	0	0	129,611	7,663,319
Special	1,191,533	0	0	0	573,801	1,765,334
Vocational	330,925	0	0	0	0	330,925
Other	325,729	0	0	0	37,468	363,197
<i>Support Services:</i>						
Pupils	847,414	0	0	0	4,837	852,251
Instructional Staff	627,604	0	0	0	23,829	651,433
Board of Education	34,166	0	0	0	0	34,166
Administration	1,386,486	0	0	0	12,794	1,399,280
Fiscal	470,340	8,899	0	0	4,097	483,336
Operation and Maintenance of Plant	1,143,604	0	0	0	20,309	1,163,913
Pupil Transportation	1,238,916	0	421,766	0	29,638	1,690,320
Central	128,396	0	0	0	17,500	145,896
Operation of Non-Instructional Services	0	0	0	0	743,248	743,248
Extracurricular Activities	419,717	0	0	0	213,262	632,979
Capital Outlay	0	0	779,949	7,561,563	53,664	8,395,176
<i>Debt Service:</i>						
Principal Retirement	59,050	155,000	0	0	0	214,050
Interest and Fiscal Charges	17,260	1,352,008	0	0	0	1,369,268
<b>Total Expenditures</b>	<b>15,754,848</b>	<b>1,515,907</b>	<b>1,201,715</b>	<b>7,561,563</b>	<b>1,864,058</b>	<b>27,898,091</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>2,359,447</b>	<b>(970,293)</b>	<b>(531,378)</b>	<b>9,698,087</b>	<b>321,883</b>	<b>10,877,746</b>
<b><u>Other Financing Sources (Uses):</u></b>						
Inception of Capital Lease	21,004	0	0	0	0	21,004
Insurance Recoveries	30,104	0	0	0	0	30,104
Transfers In	0	1,094,544	0	0	116,173	1,210,717
Transfers Out	(1,210,717)	0	0	0	0	(1,210,717)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,159,609)</b>	<b>1,094,544</b>	<b>0</b>	<b>0</b>	<b>116,173</b>	<b>51,108</b>
<b>Net Change in Fund Balances</b>	<b>1,199,838</b>	<b>124,251</b>	<b>(531,378)</b>	<b>9,698,087</b>	<b>438,056</b>	<b>10,928,854</b>
<b>Fund Balances at Beginning of Year, Restated</b>	<b>669,055</b>	<b>897,471</b>	<b>10,360,187</b>	<b>18,862,137</b>	<b>1,496,798</b>	<b>32,285,648</b>
<b>Fund Balances at End of Year</b>	<b>\$1,868,893</b>	<b>\$1,021,722</b>	<b>\$9,828,809</b>	<b>\$28,560,224</b>	<b>\$1,934,854</b>	<b>\$43,214,502</b>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2008*

**Net Change in Fund Balances - Total Governmental Funds** \$10,928,854

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	8,475,410
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(28,957)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of:	
Delinquent property taxes	46,253
Repayment of bond principal and capital lease payments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	214,050
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities:	
Inception of capital leases	(21,004)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(101)
Bond issuance costs are reported as expenditures in the governmental funds when due, but in the statement of activities these costs are accrued as deferred charges.	(12,379)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Increase in compensated absences	(118,921)
Decrease in premium on bonds issued	15,593
Total expenditures not reported in the funds	(103,328)
Internal service funds are used by management to charge the costs of insurance to individual funds. The net revenue of the internal service funds is reported as governmental activities.	(146,860)
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$19,351,938</u></u>

See accompanying notes to the basic financial statements.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues:</u></b>				
Property Taxes	\$3,581,000	\$3,545,685	\$3,545,685	\$0
Income Taxes	2,400,000	3,687,270	3,687,270	0
Intergovernmental	8,752,000	9,244,935	9,244,935	0
Interest	85,000	130,478	142,464	11,986
Tuition and Fees	1,362,500	1,482,091	1,482,122	31
Rentals	25,000	21,506	22,865	1,359
Miscellaneous	24,000	37,017	37,149	132
<i>Total Revenues</i>	16,229,500	18,148,982	18,162,490	13,508
<b><u>Expenditures:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	7,562,459	7,565,314	7,589,164	(23,850)
Special	1,325,334	1,325,434	1,154,246	171,188
Vocational	323,681	323,467	331,179	(7,712)
Other	290,730	290,730	318,584	(27,854)
<i>Support Services:</i>				
Pupils	805,736	805,736	847,191	(41,455)
Instructional Staff	693,040	693,140	640,119	53,021
Board of Education	33,505	33,505	34,431	(926)
Administration	1,636,780	1,637,225	1,443,769	193,456
Fiscal	457,258	457,258	493,965	(36,707)
Operation and Maintenance of Plant	1,257,893	1,257,893	1,171,754	86,139
Pupil Transportation	1,156,737	1,156,737	1,242,741	(86,004)
Central	158,780	158,780	144,890	13,890
Extracurricular Activities	405,511	405,511	430,459	(24,948)
<i>Total Expenditures</i>	16,107,444	16,110,730	15,842,492	268,238
<i>Excess of Revenues Over (Under) Expenditures</i>	122,056	2,038,252	2,319,998	281,746
<b><u>Other Financing Sources (Uses):</u></b>				
Insurance Recoveries	0	30,104	30,104	0
Transfers Out	(1,165,987)	(1,159,638)	(1,210,717)	(51,079)
<i>Total Other Financing Sources (Uses)</i>	(1,165,987)	(1,129,534)	(1,180,613)	(51,079)
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,043,931)	908,718	1,139,385	230,667
<i>Fund Balance at Beginning of Year</i>	842,677	842,677	842,677	0
<i>Prior Year Encumbrances Appropriated</i>	185,731	185,731	185,731	0
<i>Fund Balance at End of Year</i>	(\$15,523)	\$1,937,126	\$2,167,793	\$230,667

See accompanying notes to the basic financial statements.

**FAIRIFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*Proprietary Funds*

*June 30, 2008*

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	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b><u>Current Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$154,708
Cash and Cash Equivalents with Fiscal Agent	<u>1,401,652</u>
<i>Total Current Assets</i>	<u>1,556,360</u>
<b><u>Current Liabilities:</u></b>	
Accounts Payable	1,671
Claims Payable	<u>265,346</u>
<i>Total Current Liabilities</i>	<u>267,017</u>
<i>Total Liabilities</i>	<u>267,017</u>
<b><u>Net Assets:</u></b>	
Unrestricted	<u><u>\$1,289,343</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Revenues,  
Expenses and Changes in Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2008*

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	Governmental Activities
	Internal Service Funds
<b><u>Operating Revenues:</u></b>	
Charges for Services	\$2,048,168
Other	2,851
<i>Total Operating Revenues</i>	<u>2,051,019</u>
<b><u>Operating Expenses:</u></b>	
Purchased Services	136,253
Claims	2,065,248
Other	2,805
<i>Total Operating Expenses</i>	<u>2,204,306</u>
<i>Operating Loss</i>	(153,287)
<b><u>Nonoperating Revenue:</u></b>	
Interest	6,427
<i>Change in Net Assets</i>	(146,860)
<i>Net Assets at Beginning of Year, Restated</i>	<u>1,436,203</u>
<i>Net Assets at End of Year</i>	<u><u>\$1,289,343</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2008

	Governmental Activities
	Internal Service Funds
<hr/>	
<b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>	
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from Interfund Services Provided	\$2,048,168
Other Cash Receipts	2,851
Cash Payments for Goods and Services	(137,387)
Cash Payments for Claims	(1,800,744)
	<hr/>
<i>Net Cash from Operating Activities</i>	112,888
	<hr/>
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest on Investments	6,427
	<hr/>
<i>Net Cash from Investing Activities</i>	6,427
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	119,315
	<hr/>
<i>Cash and Cash Equivalents Beginning of Year</i>	1,437,045
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,556,360</u></u>
	<hr/>
<b><u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u></b>	
Operating Income	(\$153,287)
	<hr/>
<b><u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u></b>	
<i>Increase in Liabilities:</i>	
Accounts Payable	1,671
Claims Payable	264,504
	<hr/>
Total Adjustments	266,175
	<hr/>
<i>Net Cash from Operating Activities</i>	<u><u>\$112,888</u></u>
	<hr/>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Statement of Fiduciary Net Assets*

*Fiduciary Fund*

*June 30, 2008*

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	<u>Agency</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$138,145</u>
<b><u>Liabilities:</u></b>	
Undistributed Monies	<u>\$138,145</u>

See accompanying notes to the basic financial statements.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

**Description of the School District**

Fairfield Union Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is a result of consolidation in the early 1960's of the Rushville, Bremen and Pleasantville School Districts. It is staffed by 80 non-certificated employees, 117 certificated full-time teaching personnel and 9 administrative employees who provide services to 2,063 students and other community members. The District is supervised by the Fairfield County Educational Service Center, a separate entity.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Fairfield Union Local School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District is associated with five organizations, four of which are defined as jointly governed organizations and one as an insurance purchasing pool. These organizations are the Metropolitan Educational Council, the Fairfield County Council for Educational Collaboration, Central Ohio Special Education Regional Resource Center, the South Central Ohio Insurance Consortium and the Shakley Unservile Inc. Workers' Compensation Group Rating Plan. These organizations are presented in Notes 20 and 21 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**A. Basis of Presentation**

The District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements**

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

The following are the District's major governmental funds:

***General Fund***- This fund is the operating fund of the District and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Bond Retirement Fund***- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

***Building Fund***- This fund is used to account for the receipts and expenditures related to all special bond funds in the District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

***Classroom Facilities Fund***- This Fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the District account for grants and other resources of the District whose use is restricted to a particular purpose.

**Proprietary Fund**

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The internal service funds of the District account for a self-insurance program, which provides health and dental insurance benefits to employees, and the District's class play activities.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

**C. Measurement Focus**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Nonexchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at the fiscal year-end: property taxes available for advance, grants and interest.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**E. Cash and Cash Equivalents**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During the fiscal year 2008, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio), money market funds, and federal agency securities. Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2008.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2008 amounted to \$135,222.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

**F. Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**H. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for textbooks and capital improvements. See Note 18 for additional information regarding set-asides.

**I. Capital Assets**

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Improvements	15 - 99 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

**J. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 20 years of service with the District.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid.

**L. Accrued Liabilities and Long-Term Liabilities**

All payables, accrued liabilities and long-term liabilities are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Capital leases, bonds and long-term notes are recognized as a liability on the fund financial statements when due.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Fund Balance Reserves**

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

**P. Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2008, the District reported no extraordinary or special items.

**R. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.

**S. Budgetary Process**

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2008.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 3- PRIOR PERIOD ADJUSTMENT AND NEW GASB PRONOUNCEMENTS**

**Prior Period Adjustment**

The District's medical insurance is provided through the South Central Ohio Insurance Consortium (SCIOC). In the previous year, the medical insurance program had been accounted for as a premium based plan. During fiscal year 2008, a change was made to the SCIOC's by-laws which returned the medical insurance program to a self-funded plan, which shifted the risk back to the members. A prior period adjustment has been made to include cash held by fiscal agent for the medical insurance portion of the District's plan as of June 30, 2007, which resulted in an increase of net assets of the Internal Service Fund and Governmental Activities.

In the previous year, the District posted expenditures in the Building Fund the should have been posted in the Classroom Facilities Fund. Also, capitalized interest was posted to the Building Fund that should have been posted to the Bond Retirement Fund. Prior period adjustments were made to properly reflect these transactions in the proper funds.

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>	<u>Bond Retirememt Fund</u>	<u>Building Fund</u>	<u>Classroom Facilities Fund</u>
Net Assets at June 30, 2007	\$10,740,708	\$226,178	\$769,971	\$10,009,953	\$19,339,871
Increase Cash Held by Fiscal Agent	1,210,025	1,210,025	0	0	0
Reclassify Expenditures	0	0	0	477,734	(477,734)
Reclassify Capitalized Interest	0	0	127,500	(127,500)	0
Adjusted Net Assets at June 30, 2007	<u>\$11,950,733</u>	<u>\$1,436,203</u>	<u>\$897,471</u>	<u>\$10,360,187</u>	<u>\$18,862,137</u>

**New GASB Pronouncements**

For fiscal year 2008, the District implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB No. 50, "Pension Disclosures", an amendment of GASB Statements No. 25 and No. 27. The implementation of GASB Statement No. 45, 48 and 50 had some effect on the disclosure requirements, however, there was no effect on the prior period fund balances of the District.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**Accountability**

The following funds had deficit fund balances as of June 30, 2008:

*Nonmajor Special Revenue Funds:*

EMIS	\$74
Entry Year	15
Summer Intervention	2,495
PBA Grant	5,055
Safe School Hotline	73
IDEA-B Grant	4
Title I	1,464
Title II-A	4,731

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

**Compliance**

**Ohio Rev. Code Section 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The following line items had expenditures in excess of amounts appropriated at June 30, 2008:

	<u>Appropriated</u>	<u>Expenditures</u>	<u>Variance</u>
School Facilities Fund	\$35,640,060	\$38,592,657	(\$2,952,597)

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and modified accrual GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
Budget Basis	\$1,139,385
<i>Adjustments:</i>	
Revenue Accruals	(48,195)
Expenditure Accruals	(127,160)
Encumbrances	214,804
Other Sources (Uses)	21,004
GAAP Basis	<u><u>\$1,199,838</u></u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

Public depositories must give security for all public funds on deposit. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

**Deposits:** Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2008, the carrying amount of all District deposits was \$13,753,648 which includes \$1,401,652 cash with fiscal agent. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2008, \$12,118,362 of the District's bank balance of \$12,351,962 was exposed to custodial credit risk as discussed above while \$233,600 was covered by Federal Depository Insurance. The \$12,118,362 exposed to custodial risk was collateralized with securities held by the pledging financial institution or its agent in the District's name.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

**Investments:** As of June 30, 2008, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>
STAROhio	\$31,554,064	\$31,554,064
Money Market	1,285,126	1,285,126
U.S. Treasury Bonds and Notes	1,009,108	1,009,108
Totals	<u>\$33,848,298</u>	<u>\$33,848,298</u>

**Interest Rate Risk:** Interest rate risk is the risk, that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's has assigned STAROhio an "AAAm" rating. Moody's has assigned U.S. Treasury Obligations an "Aaa" rating. The money market funds were unrated. The District does not have a policy for credit risk.

**Custodial Credit Risk:** For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party. District policy provides that investment collateral is held by the counter party's trust department or agent, and may be held in the name of the District or not.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. U.S. Treasury Bonds and Notes comprised 2.98%, Money Market comprised 3.79%, and STAROhio comprised 93.23% of the School District's investments. The District does not have a policy for concentration of credit risk.

**NOTE 7 - SCHOOL INCOME TAXES**

The District currently benefits from a 2.00% income tax, which is assessed on all residents of the District. The District apportions all the proceeds to the General Fund. During fiscal year 2008, the District received \$3,553,396 from the school income tax.

**NOTE 8 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 6.25 percent of true value for capital assets and 24% of true value for inventory.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 8 - PROPERTY TAXES** - (Continued)

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fairfield County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008 are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the June 2008 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2008. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2008 was \$501,221 and is recognized as revenue. Of this total amount, \$421,411 was available to the General Fund, \$56,864 was available to the Bond Retirement Fund, and \$22,946 was available to the Permanent Improvement Fund.

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second-Half Collections		2008 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$162,709,510	92.92%	\$181,980,530	94.17%
Public Utility Personal	10,711,840	6.12%	10,041,080	5.20%
Tangible Personal Property	1,685,235	0.96%	1,215,980	0.63%
Total Assessed Value	<u>\$175,106,585</u>	<u>100.00%</u>	<u>\$193,237,590</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$47.90		\$47.10	

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2008 consisted of property and income taxes, accounts (student fees), interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	
<hr/>	
<i>Other Governmental Funds:</i>	
IDEA-B Grant	\$1,089
Title I	28,172
Title V	444
Title IV	333
Title II-A	8,859
	<hr/>
Total Intergovernmental Receivable	<u><u>\$38,897</u></u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 10 - CAPITAL ASSETS**

Capital asset governmental activity for the fiscal year ended June 30, 2008 was as follows:

Asset Category	Balance at July 1, 2007	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2008
<i>Nondepreciable Capital Assets:</i>				
Land	\$356,747	\$0	\$0	\$356,747
Construction in Progress	1,578,252	8,388,656	0	9,966,908
Total Nondepreciable Capital Assets	1,934,999	8,388,656	0	10,323,655
<i>Depreciable Capital Assets:</i>				
Land Improvements	805,042	0	0	805,042
Buildings and Improvements	5,188,493	0	0	5,188,493
Furniture, Fixtures and Equipment	2,983,233	96,411	(73,118)	3,006,526
Vehicles	1,309,534	349,231	(280,485)	1,378,280
Library Books and Textbooks	691,603	0	0	691,603
Total Depreciable Capital Assets	10,977,905	445,642	(353,603)	11,069,944
Total Capital Assets	12,912,904	8,834,298	(353,603)	21,393,599
<i>Accumulated Depreciation:</i>				
Land Improvements	(107,476)	(40,244)	0	(147,720)
Buildings and Improvements	(2,398,817)	(42,045)	0	(2,440,862)
Furniture, Fixtures and Equipment	(2,047,403)	(153,228)	44,161	(2,156,470)
Vehicles	(991,061)	(92,660)	280,485	(803,236)
Library Books and Textbooks	(435,742)	(30,711)	0	(466,453)
Total Accumulated Depreciation	(5,980,499)	(358,888)	324,646	(6,014,741)
Total Net Capital Assets	\$6,932,405	\$8,475,410	(\$28,957)	\$15,378,858

Of the capital assets, \$494,913 are assets that are under capital lease. These assets under capital lease have an accumulated depreciation of \$127,902.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 10- CAPITAL ASSETS** - (Continued)

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$154,214
Special	763
Vocational	2,716
<i>Support Services:</i>	
Pupils	2,872
Instructional Staff	51,649
Administration	6,067
Fiscal	2,158
Operation and Maintenance of Plant	18,711
Pupil Transportation	95,340
<i>Operation of Non-Instructional Services:</i>	
Food Service	6,001
Extracurricular Activities	18,397
Total Depreciation Expense	<u><u>\$358,888</u></u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 11 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, the District contracted with Ohio School Plan for professional and general liability insurance and Indiana Insurance for property and fleet insurance. Coverages provided are as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$31,712,400
Musical Instruments (\$500 deductible)	100,000
Automobile Liability (\$500 deductible)	
Per Person	3,000,000
Per Accident	1,000,000
Uninsured Motorists	
Per Person	1,000,000
Per Accident	3,000,000
<i>General Liability:</i>	
Per Occurrence (\$1,000 deductible)	1,000,000
Aggregate Limit	4,000,000
Public Official Bonds	
Treasurer	100,000
Superintendent/Board President (each)	20,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2008, the District participated in the Shakley Unservile Inc. Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 21). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria.

The District provides a health and dental insurance program for its employees. Premiums are paid directly to a third party administrator, South Central Ohio Insurance Consortium, out of the District's Self-Insurance Internal Service Fund. EV Benefits services all claims submitted by employees. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 11 - RISK MANAGEMENT** - (Continued)

The claims liability of \$80,264 reported at June 30, 2008 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years is as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2007	\$174,398	\$148,638	\$322,194	\$842
2008	842	1,880,166	1,800,744	80,264

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.82 percent of the annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$228,743, \$270,881, \$257,349, respectively; 49.33 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006. \$115,903 representing the unpaid contribution for fiscal year 2008, is recorded as a liability on the statement of net assets.

**State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS** - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10.0 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007 (the latest information available), the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$998,542, \$1,049,700, and \$1,001,644, respectively; 84.52 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006. \$154,566 representing the unpaid contribution for fiscal year 2008, is recorded as a liability on the statement of net assets.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2008, four members of the Board of Education have elected Social Security.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

**Plan Description** - Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or the combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums.

The State Teachers Retirement Board has statutory authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report that includes financial information for the health care plan. Interested parties can view the most recent *Comprehensive Annual Financial Report* at [www.strsoh.org](http://www.strsoh.org) or obtain a copy by calling (888)227-7877.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 13 - POSTEMPLOYMENT BENEFITS** - (Continued)

**Funding Policy** - Under Ohio law, funding for postemployment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. The 14 percent contribution is the maximum rate allowed under Ohio law.

All STRS benefit recipients pay a portion of the health care cost in the form of a monthly premium. The Districts' contributions allocated to fund postemployment health care benefits for the years ended June 30, 2008, 2007, and 2006 were \$76,811, \$74,935, and \$77,050 respectively; 100 percent has been contributed for years 2008, 2007, and 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$4.1 billion at June 30, 2007 (the latest information year available). For the year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

Medicare Part B Plan - Reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2008 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2008, 2007, and 2006, the actuarially required allocations were 0.66 percent, 0.68 percent, and 0.78 percent, respectively. For the District, contributions for the fiscal years ended June 30, 2008, 2007, and 2006 were \$2,298, \$2,289, and \$2,570, respectively, which equal the required contributions for those years.

**Health Care Plan** - Ohio law authorizes SERS Ohio to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code (ORC) postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, the health care allocation was 4.18 percent. The actuarially required contributions (ARC), as of June 30, 2007 annual valuation was 11.50 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. Fairfield Union Local School District's contributions for the years ended June 30, 2008, 2007, 2006 were \$130,253, \$119,815, and \$115,458 respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 13 - POSTEMPLOYMENT BENEFITS** - (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Forms and Publications*.

**NOTE 14 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 60 days classified employees and 60 days for certified employees. In addition, certified employees who retire at thirty years of service and have the maximum accumulation will receive a retirement bonus of 75 days severance pay in lieu of the 60 days.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 15 - LONG-TERM LIABILITIES**

The changes in the District's long-term liabilities during fiscal year 2008 were as follows:

	Interest Rate	Principal Outstanding at July 1, 2007	Additions	Deletions	Principal Outstanding at June 30, 2008	Amount Due in One Year
<u>Governmental Activities:</u>						
Energy Conservation Note	4.85%	\$320,000	\$0	\$30,000	\$290,000	\$35,000
Bonds - Buses	5.00%	20,000	0	20,000	0	0
Bonds - Buildings and Improvements	4.10%	7,969,550	0	30,000	7,939,550	35,000
Refunding HS Bond	4.20%	800,000	0	45,000	755,000	45,000
Series 2006A - Buses	4.20%	280,000	0	25,000	255,000	25,000
Series 2006A - Bonds	4.20%	8,215,000	0	5,000	8,210,000	100,000
Series 2007 - Bonds	4.10%	9,959,998	0	0	9,959,998	130,000
Premium on Bonds Issued	N/A	381,230	0	15,593	365,637	15,594
Capital Leases Payable	N/A	353,521	21,004	59,050	315,475	64,736
Compensated Absences	N/A	1,081,084	402,707	283,786	1,200,005	54,716
Total Governmental Activities Long-Term Liabilities		<u>\$29,380,383</u>	<u>\$423,711</u>	<u>\$513,429</u>	<u>\$29,290,665</u>	<u>\$505,046</u>

*Energy Conservation Note* - In December, 1997, Fairfield Union Local School District issued general obligation notes for H. B. 264 energy improvements. The notes were issued for \$1,047,892 at 4.4% interest and mature December 2006. The balance of this debt was refinanced in November, 1998 extending the payment schedule an additional five years. In June, 1999 the District issued additional general obligation notes for H. B. 264 energy improvements. The notes were issued for \$425,000 at 4.85% interest and mature December, 2013.

*General Obligation Bonds - Buses* -In February of 1996, the District issued \$260,000 in general obligation bus bonds for the purchase of five school buses. These bonds were paid off during the fiscal year. In February of 1998, the District issued \$164,000 in general obligation bus bonds for the purchase of school buses. The bonds have an interest of 5% and mature in 2008.

*General Obligation Bonds - Buildings and Improvements* - In April 2006, general obligation bonds at 4.10% interest were issued in the amount of \$7,989,550, as a result of the District being approved for school facilities funding through the State Department of Education for the renovation of the Junior-Senior High School Building and to begin the design process for three new buildings. The District issued the general obligation bonds to provide a partial cash match to the school facilities funding. As a requirement of the school facilities funding program, the District passed a 3 mill levy in November 2005. Of the 3 mill levy, 2.5 mills is used for the retirement of the bonds that were issued and are in effect for thirty years. The remaining .5 mill is used for repairs and maintenance of the facility. As a part of this funding process, the District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the thirty year period expires. If the District's adjusted valuation per pupil increase above the state-wide median adjusted valuation during the thirty year period, the District may become responsible for repayment of a portion of the State's contribution.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 15 - LONG-TERM LIABILITIES** - (Continued)

*Refunding General Obligation Bonds* - During fiscal year 2007, the District issued \$800,000 of general obligation bonds at 4.2% for the advance refunding of \$820,000 of the 1993 building bonds. The proceeds of the refunding were deposited in an irrevocable trust to provide for all future debt service payments. The payment to the escrow agent resulted in an in-substance defeasance of the Building Bonds. As a result, the liability for the Building Bonds was removed as a liability of the District. At June 30, 2008, the balance of funds in the escrow account was \$755,000.

*General Obligation Bonds - Series 2006A - Buses* - In December of 2006, the District issued \$280,000 in general obligation bus bonds for the purchase of school buses. These bonds have an interest of 4.20% and mature in 2021.

*General Obligation Bonds - Series 2006A - Classroom Facilities* - In December of 2006, The District issued \$8,215,000 in general obligation bonds for purpose of funding a portion of the basic project cost of a classroom facilities project in accordance with a Project Agreement with the Ohio School Facilities Commission. These bonds have an interest of 4.20% and mature in 2021.

*General Obligation Bonds - Series 2007* - The general obligation bonds were issued in the amount of \$9,959,998 at 4.1% interest in January 2007 to repay the bond anticipation notes. The District issued the general obligation bonds to cover the District's share of the Ohio School Facilities Commission Project.

The District's notes and bonds are paid from the Bond Retirement Debt Service Fund. The capital leases are all paid from the General Fund. The compensated absences are paid from the fund from which the respective employees' salaries are paid.

The District's overall legal debt margin was (\$1,263,165) with an unvoted debt margin of \$193,238 at June 30, 2008.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 15 - LONG-TERM LIABILITIES** - (Continued)

The annual requirements to retire the energy conservation note and general obligation bonds outstanding at June 30, 2008 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Energy Conservation Note</u>	<u>Building &amp; Improvement Bonds</u>	<u>Refunding HS Bonds</u>
2009	\$49,065	\$412,560	\$75,200
2010	52,368	430,810	83,400
2011	55,428	433,060	86,200
2012	58,245	445,060	88,800
2013	60,820	481,310	91,200
2014-2018	68,152	2,579,050	442,400
2019-2023	0	2,937,550	83,200
2024-2028	0	3,251,075	0
2029-2033	0	3,624,800	0
2034	0	768,325	0
Total Debt Payments	344,078	15,363,600	950,400
Less: Amount Representing Interest	54,078	7,424,050	195,400
Total Principal	<u>\$290,000</u>	<u>\$7,939,550</u>	<u>\$755,000</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 15 - LONG-TERM LIABILITIES** - (Continued)

Fiscal Year Ending June 30,	Series 2006A Buses	Series 2006A Bonds	Series 2007 Bonds	Total
2009	\$36,000	\$444,681	\$532,944	\$1,550,450
2010	35,000	514,181	573,069	1,688,828
2011	34,000	507,181	531,069	1,646,938
2012	33,000	529,581	535,469	1,690,155
2013	37,000	540,278	549,469	1,760,077
2014-2018	139,162	2,991,369	2,984,925	9,205,058
2019-2023	0	3,025,532	4,053,306	10,099,588
2024-2028	0	3,017,037	4,741,144	11,009,256
2029-2033	0	1,204,035	1,890,961	6,719,796
2034	0	0	0	768,325
Total Debt Payments	314,162	12,773,875	16,392,356	46,138,470
Less: Amount Representing Interest	59,162	4,563,875	6,432,358	18,728,922
Total Principal	<u>\$255,000</u>	<u>\$8,210,000</u>	<u>\$9,959,998</u>	<u>\$27,409,548</u>

**NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE**

During the year, the District entered into one new capital leases for the acquisition of a copiers. The lease agreement is accounted for as program/function expenditures in the General with an offsetting amount reported as an other financing source, inception of capital lease. The District also had other capital leases outstanding from prior years. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability has been recorded as a long-term obligation. Principal payments in fiscal year 2008 totaled \$59,050.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE** - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of June 30, 2008.

Fiscal Year Ending June 30,	Lease Payments
2009	\$79,363
2010	75,159
2011	60,316
2012	41,235
2013	33,904
2014-2016	74,616
Total Debt Payments	364,593
Less: Amount Representing Interest	49,118
Total Principal	<u>\$315,475</u>

**NOTE 17 - INTERFUND ACTIVITY**

As of June 30, 2008, transfers were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$1,210,717
Bond Retirement Fund	1,094,544	0
<i>Other Governmental Funds:</i>		
Classroom Facilities Maintenance	85,674	0
Summer Intervention	861	0
Permanent Improvement Levy	29,638	0
Total Other Governmental Funds	116,173	0
Totals	<u>\$1,210,717</u>	<u>\$1,210,717</u>



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 17 - INTERFUND ACTIVITY** - (Continued)

Transfers are generally used to either (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Bond Retirement Debt Service Fund as debt service payments become due, or (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year ended 2008, the District made transfers of \$116,173 from the General Fund to Other Governmental Funds for various purposes.

During fiscal year ended 2008, the District made a transfer of \$1,094,544 from the General Fund to the Bond Retirement Debt Service Fund to make debt payments.

**NOTE 18 - STATUTORY SET-ASIDES**

The following changes occurred in the District's set-aside reserve accounts during fiscal year 2008:

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Totals</u>
Set-Aside Balance as of July 1, 2007	(\$104,639)	\$0	(\$104,639)
Current Year Set-Aside Requirement	307,809	307,809	615,618
Qualifying Disbursements	<u>(350,258)</u>	<u>(364,133)</u>	<u>(714,391)</u>
Total	<u>(147,088)</u>	<u>(56,324)</u>	<u>(203,412)</u>
Set-Aside Balance as of June 30, 2008	<u>\$0</u>	<u>\$0</u>	
Total Restricted Assets			<u>\$0</u>

Although the District can have qualifying disbursements during the year that exceed the current year set-aside requirements in both the textbook and capital improvement reserve accounts, only the excess in the textbook reserve account can be carried forward to offset future years' textbook set-aside requirements. Each reserve must be represented by restricted cash at year-end and carried forward to be used for the same purposes in future years.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

**NOTE 19 - CONTRACTUAL COMMITMENTS**

As of June 30, 2008, the District had contractual commitments related to the construction of new facilities. The amount for each contractor is as follows:

Contractor	Purchase Commitments	Amounts Paid as of June 30, 2008	Amounts Remaining on Contracts
Aggressive Mechanical	\$1,029,000	\$47,600	\$981,400
Buckeye Glass	280,000	0	280,000
Claypool Electric	3,911,080	0	3,911,080
Farnham Equipment	398,000	0	398,000
Gutridge Plumbing	424,000	0	424,000
Loveland	1,675,857	1,274,974	297,709
Robertson Construction	8,852,210	0	8,852,210
SA Communale Co.	445,400	10,560	434,840
Stockmeister Enterprises	7,200,703	0	7,200,703
Stonecreek Interior	422,600	0	422,600
Microman	372,023	0	372,023
Louis R. Ploster Co.	318,715	0	318,715
Four Seasons	35,500	0	35,500
Stan Engineers	124,754	17,829	106,925
Best Restaurant Equipment	261,092	0	261,092
Cincinnati Data	178,145	0	178,145
Fox Mechanical	403,600	10,919	392,681
H&A Mechanical	3,599,000	169,738	3,429,262
Innovative Energy	547,548	0	547,548
The Kenny Huston Co.	2,752,500	49,680	2,702,820
Richardson Glass	323,225	0	323,225
TS Randal Company	397,800	0	397,800
Burgess & Niple, Inc.	4,904,211	2,636,800	1,146,703
Bovis Lend Lease	3,214,862	1,112,899	2,101,963
Total	<u>\$42,071,825</u>	<u>\$5,330,999</u>	<u>\$35,516,944</u>

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 20 - JOINTLY GOVERNED ORGANIZATION**

**Metropolitan Education Council (MEC)**

Metropolitan Education Council, is a jointly governed organization created as a regional council of governments pursuant to State statutes. MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the District.

**Fairfield County Council for Educational Collaboration**

In accordance with the provisions of Ohio Revised Code 167 and 124.81, certain boards of education and institutions of higher education, within Fairfield County, have determined to enter into an agreement to form a council of governments. This council of governments shall be known as the Fairfield County Council for Educational Collaboration.

The purpose of the Fairfield County Council for Educational Collaboration is to bring together the public school system and public institution for higher education in Fairfield County so they can collectively devise and provide for enhanced educational opportunities for the students and citizens of the community. The areas of interest that may be addressed by the Council include, but are not limited to, student programming, school management issues, and any other collaborative projects deemed appropriate by the governing body of the Council. The District appoints the superintendent to be its representative to the Board of Directors of this council. The District has no ongoing financial interest or financial responsibility to the Fairfield County Council for Educational Collaboration.

**South Central Ohio Insurance Consortium (SCOIC)**

South Central Ohio Insurance Consortium is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District does not have an ongoing financial interest in or financial responsibility for the SCOIC other than claims paid on behalf of the District for District employees.

**Central Ohio Special Education Regional Resource Center (COSERRC)**

Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts in Central Ohio. The District participates in services that assist the District in complying with Mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the District. COSERRC is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for COSERRC.

**NOTE 21 - INSURANCE PURCHASING POOL**

**Shakley Unservile Inc. Worker's Compensation Group Rating Plan**

The District participates in a Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool with the Shakley Company. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008*

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**NOTE 22 - CONTINGENCIES**

**Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Fairfield Union Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the District in a separate letter dated December 19, 2008.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

KENNEDY COTTRELL RICHARDS LLC

December 19, 2008

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR  
FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

Board of Education  
Fairfield Union Local School District  
7698 Main Street  
West Rushville, Ohio 43163

**Compliance**

We have audited the compliance of Fairfield Union Local School District, Fairfield County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

**Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC  
December 19, 2008



**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

Federal grantor/Pass through grantor/Program title	Grant Year(s)	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Pass-through State Department of Education:</i>						
Nutrition Cluster:						
National School Breakfast Program	2008	10.553	\$ 52,661	\$ -	\$ 52,661	\$ -
National School Lunch Program	2008	10.555	205,411	-	205,411	-
Total Nutrition Cluster			<u>258,072</u>	<u>-</u>	<u>258,072</u>	<u>-</u>
<i>Pass-through State Department of Education:</i>						
Food Distribution	2008	10.550		72,614	-	71,882
Total U.S. Department of Agriculture			<u>258,072</u>	<u>72,614</u>	<u>258,072</u>	<u>71,882</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Pass-through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	2007/2008	84.010	194,496	-	188,964	-
Special Education--Grants to States--Title VI-B	2007/2008	84.027	381,797	-	381,404	-
Safe and Drug Free Schools -- State Grant	2007/2008	84.186	6,209	-	6,673	-
Innovative Education Program Strategy, Title V	2007/2008	84.298	2,793	-	2,827	-
Title II-D Technology Fund	2008	84.318	3,267	-	3,267	-
Title II-A -- Improving Teacher Quality	2007/2008	84.367	87,178	-	88,719	-
Total U.S. Department of Education			<u>675,740</u>	<u>-</u>	<u>671,854</u>	<u>-</u>
Total Receipts and Expenditures of Federal Awards			<u>\$ 933,812</u>	<u>\$ 72,614</u>	<u>\$ 929,926</u>	<u>\$ 71,882</u>

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS**

**JUNE 30, 2008**

**(1) General**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Fairfield Union Local School District (the District) as the primary government. The District's reporting entity is defined in Note 1 to the District's basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agencies is included on the Schedule.

**(2) Basis of Accounting**

The accompanying Schedule is presented on a cash basis of accounting in which revenues are recognized when received and expenses are recognized when paid.

**(3) Noncash Programs**

The District values its noncash programs (National School Lunch Program) on the basis of the value of the goods received during the fiscal year.

**(4) Revenue**

The revenue balances are reported net of refunds to the governmental agency.

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2008**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
--

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Education Agencies CFDA # 84.010  Special Education Grants to States CFDA # 84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2008**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**2008-1 Noncompliance: Expenditures Exceeded Appropriations**

Ohio Revised Code Section 5705.41(B) provides, in part, that no subdivision or taxing unit shall "make any expenditure of money unless it has been appropriated as provided in such chapter."

At June 30, 2008, the District's total of cash-basis expenditures, plus encumbrances, in its Classroom Facilities Fund exceeded the amount appropriated for the fund by \$2,952,597.

We recommend that the District implement monitoring procedures to ensure that amounts are properly appropriated prior to encumbering or expending funds.

Official's Response

We clearly understand the requirements of Ohio Rev. Code Section 5705.41 (B) and have historically been compliant with this code section. However, our District is participating in the Ohio School Facilities Commission's Classroom Facilities Assistance program and our desire and need to be compliant with the terms of the Project Agreement has caused this noncompliance to occur.

The Ohio School Facilities Commission requires a purchase order to be issued for each construction contract. Once a purchase order is issued, an encumbrance is set up and funds can be drawn from the Commission to cover the expenditure.

At the end of the fiscal year our District is required to have estimated revenues equal actual receipts per Ohio Revised Code. So, in our case if the District would have adjusted appropriations to equal expenditures plus encumbrance this would have resulted in another budgetary citation related to appropriations exceeding estimated resources.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None.

**FAIRFIELD UNION CITY SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-1	Controls over the preparation of materially correct financial statements need to be improved.	No	Partially Corrected. Reported in letter to management dated December 19, 2008.
2007-2	Ohio Rev. Code Section 5705.41(B) – Expenditures exceeding appropriations.	No	Not corrected. Reported as finding 2008-1.





**Mary Taylor, CPA**  
Auditor of State

**FAIRFIELD UNION LOCAL SCHOOL DISTRICT**  
**FAIRFIELD COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**JANUARY 20, 2009**